

CONFIDENTIAL

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1

25X1



Nº 124

CIA/RR EM 65-16

June 1965

INTELLIGENCE MEMORANDUM

CAMBODIA'S ECONOMIC PERFORMANCE IN 1964

DIRECTORATE OF INTELLIGENCE
Office of Research and Reports

25X1

CONFIDENTIAL

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1

GROUP 1
Excluded from automatic
downgrading and
declassification

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Foreign Trade	3
II. Domestic Finance	4
III. Private Investment	5
IV. Foreign Aid	5 25X1



CAMBODIA'S ECONOMIC PERFORMANCE IN 1964*

Summary and Conclusions

During 1964 the Cambodian economy overcame the initial shock caused by the nationalization of foreign trade on 1 March 1964 and of commercial banking on 1 July 1964 and went on to record a creditable performance in critical sectors. Good production of primary export crops led to high export levels, which combined with sharply restricted imports to provide the country's first trade surplus in several years. The achievement of high production levels was more the result of favorable weather than of government policy. Barring bad weather, Cambodia should be able to continue the high export levels.

The government budget deficit, however, was increased by the loss of US assistance and is unlikely to be reduced in the foreseeable future. France is providing substantial economic assistance and Communist countries lesser amounts, but the total available is not of a suitable type or amount to replace the \$20 million to \$30 million per year in US economic grant aid that was important in helping to offset budgetary deficits prior to its renunciation in November 1963.

In other developments, nationalization of vital sectors of the economy was consolidated and government involvement was extended into more activities, creating business uncertainty concerning future government moves and a consequent adverse reaction by private investors. The reluctance of private investors will retard further the limited pace of capital investment and economic development in Cambodia.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 1 May 1965.

I. Foreign Trade

The Cambodian economy performed creditably in 1964 despite the renunciation of US aid and the early difficulties associated with the nationalization of foreign trade and commercial banking. A favorable balance of trade was achieved for the first time in several years, and inflationary pressures were controlled. The most serious immediate problem was the deficit in the government budget, aggravated by the failure to replace US grant aid by similar aid from other sources. The generally good performance was only in part the consequence of conscious policy, and continued success is heavily dependent on the unpredictable production levels of the country's primary exports -- rice, rubber, and corn.

Management of foreign trade was assigned in late 1963 to Sonexim, a new government agency under the Ministry of Commerce. Sonexim's management of foreign trade, which at first was inefficient and threatened to disrupt the important rice export trade, improved during 1964, and, more important, the crops of primary exports proved to be sufficient to absorb earlier losses. The rice harvest in the crop year 1963/64 totaled 2.65 million tons, an increase of 28,000 tons over the previous year.* 2/ Rice exports in 1964 totaled 564,000 tons, exceeding record 1963 exports by 26 percent. Corn exports totaled 148,000 tons, up 29 percent over 1963. Rubber exports, according to data of the International Rubber Study Group, came to 42,000 tons, although official customs returns, apparently in error, recorded only 24,000 tons. 3/

Official customs data indicate that exports for 1964 totaled \$87.5 million and imports \$81.8 million. 4/ Adjustments for rubber may raise the export figure to \$96 million for an export surplus of \$14 million, the first trade surplus achieved in several years. Preliminary full-year statistics issued by Sonexim suggest a trade surplus of \$38 million, but these data probably are exaggerated. Even a small trade surplus, however, would serve to carry Cambodia over the initial period of readjustment necessitated by nationalization and the renunciation of US economic aid.** Foreign exchange reserves, in fact, rose by the end of May 1964 to a solid level (for Cambodia) of \$100 million. By the end of December they had fallen to \$91.4 million, somewhat below the 1963 year-end level, as imports recovered from their second-quarter low. 5/

25X1

* This comparison is based on a new series for rice production adopted by the Cambodian government in August 1964. The series was based on a land use survey and entailed a drastic revision upward of the estimates of rice production in recent years. The figure of 2.62 million tons for the 1962/63 crop year may be compared with the previously accepted figure of 1.69 million tons for the same period. 1/

** In the past, US grant aid of \$20 million to \$30 million annually has been essential to help offset the chronic deficit in the balance of payments.

Foreign trade prospects for 1965 are favorable but probably will fall short of the 1964 achievement. The 1964/65 rice crop promises to be comparable to that of 1963/64, and additional rubber plantings are coming into production, boding well for exports. The government's tighter control over foreign exchange suggests that allocations for imports can be regulated effectively. Imports probably will increase, however, as an effort is made to avoid deficiencies in important stocks and as a normal consequence of eliminating procedural bottlenecks. In addition, there is a continuing demand for nonessential imports (in spite of a special rate of 81 riels per dollar compared with the official rate of 35 riels per dollar applying to other imports), and the government is unlikely to curtail them severely.

II. Domestic Finance

The government's domestic finances did not fare as well as foreign trade in 1964. US grant aid, which in 1962 covered 13 percent of budget expenditures and 39 percent of the budget deficit, was not replaced by other grant assistance, and consequently the realized deficit increased greatly. Prince Sihanouk spoke frequently of the need to reduce expenditures, but only token measures were actually taken. New sources of revenue were realized in the commissions earned by Sonexim and other government agencies engaged in the foreign trade process, and the milling tax is collected more thoroughly under the new system. Other taxes were lost, however, in the early period of transition, and, because of an unrealistically low exchange rate, Sonexim's operations have been unprofitable in riels. Furthermore, preliminary negotiations for the 1965 budget suggest that there will be an even greater deficit than in 1964. To help finance the 1964 deficit, the Ministry of Finance in December 1964 issued \$17 million worth of treasury bonds under authorization of the 1964 budget law, the first time such a financial move has been made in Cambodia. 6/ As one of the few visible economy measures, the government has reduced support to the Phnom Penh municipal budget, thus affecting public works projects there.

Total money in circulation rose relatively little during 1964, but reaction to the nationalization of banking and trade affected the composition of the money supply. Funds were withdrawn from bank accounts on a large scale, apparently because of the tightness of credit and because of uncertainties concerning further government measures. Although some of these funds gradually found their way back, at the end of October 1964 the composition of the money supply was still abnormal. Almost three-fourths of the total consisted of currency in circulation and about one-fourth of demand deposits; historically, demand deposits have been the dominant component. Available evidence suggests that price increases during 1964 were not excessive.

III. Private Investment

In spite of the creditable performance in production and trade in 1964, the outlook for commercial and investment activity as well as economic growth has been adversely affected by reaction to the government's actions in the economy. Private commercial interests have reacted unfavorably to the uncertain atmosphere created by the regime's economic policy. One significant indicator of this is a report that 900 merchants in Phnom Penh are not renewing their business licenses for 1965. 7/ Capital investment has also suffered in reaction to indications that the government intends to increase its control and participation in industry. Private interests have been skeptical of the government's stated policy of not nationalizing industry* and of its offer of long-term guarantees of nonnationalization for approved investments. Although the government's rather pragmatic approach so far suggests that it will not be too hasty in further nationalization, possible future trends are suggested by reports that petroleum distribution will be nationalized in 1965. 8/

IV. Foreign Aid

During 1964, Cambodia was not able to negotiate foreign aid commitments on the scale that it had hoped and certainly not on a level adequate to replace the US grant aid of \$20 million to \$30 million per year renounced in November 1963. France was by far the largest provider of aid in 1964. In midyear an important economic agreement was signed, according to which the French were to extend \$32.6 million for three major projects: improving the port of Sihanoukville, further work on the Phnom Penh - Sihanoukville railroad, and building a dam at Prek Thnot. Of this amount, \$4 million was to be grant aid and the remainder credits on favorable terms. 9/ France earlier had agreed in principle to build and staff both a normal school and an agricultural school, apparently on a grant basis. Additionally, French technical assistance in 1965 is to be about \$3.4 million, or almost double that in 1964. West Germany delivered in February 1964 a gift of 13 freight cars worth \$200,000 and agreed in December 1964 to provide, on a grant basis, a technical school valued at \$700,000. Other anticipated West German aid includes loans and grants for the Phnom Penh - Sihanoukville railroad and a slaughterhouse. 10/

Communist countries provided little additional economic aid during the year. Communist China sent advisers for various purposes: to help in restructuring the Cambodian economy under nationalization, to make preliminary studies for a glass factory and a second textile factory, and to improve quality and reduce costs in the inefficient state factories built with Chinese aid. In October 1964, Communist China agreed to help in the expansion of the existing textile mill

* The government does operate certain state enterprises, built primarily with foreign aid.

and cement plant. 11/ This cement plant at Chakrey Ting and the Soviet-built technological institute at Phnom Penh were formally inaugurated in September 1964. No new economic aid agreements were provided by the USSR or the European Communist countries.

25X1

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1

25X1

CONFIDENTIAL

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1

25X1

CONFIDENTIAL

Approved For Release 2006/05/24 : CIA-RDP78T02095R000800070022-1